



# Alabama

**ALABAMA'S PENSION SYSTEMS APPEAR** to be in good shape and the state does an excellent job of keeping up with its annual required contributions. Alabama's big challenge is its extensive non-pension benefits—about \$5.3 billion for state employees and another \$14.6 billion for teachers. (In many states, the latter is not calculated on a state-level basis, but will appear as a liability for individual school districts.) Alabama has moved aggressively, calculating its liability earlier than many states and setting up irrevocable trusts in which to make payments toward its long-term costs. Moving toward full funding of this bill and consistently putting the money in its trusts would be smart fiscal policy. The long-term cost for state employees would shrink from \$5.3 billion to \$3.8 billion, and from \$14.6 billion to \$10.2 billion for teachers, because the interest the state is likely to earn when it invests more money over the long term can be applied to paying down the bill.

## PENSIONS

TOTAL BILL COMING DUE: **\$34 billion**<sup>1</sup>

FUNDS SET ASIDE: **\$28.5 billion**

PORTION UNFUNDED: **\$5.5 billion**

PERCENT FUNDED: **84 as of 2005**<sup>2</sup>

TEN YEAR FUNDING HIGH: **111% in 1997**

TEN YEAR FUNDING LOW: **84% in 2005**


HOW IS THE STATE DOING IN PAYING ITS ANNUAL BILL? 

**ASSUMPTIONS:** Alabama assumes 8% interest on its pension investments, right at the 50-state median. It uses a five-year smoothing period, similar to most states. The amortization period conforms to accounting standards.

<sup>1</sup> Pension funds include state and judicial employees and teachers.

<sup>2</sup> 50-state mean was 82% in 2006; Alabama's 2006 figure was not available at the time of Pew's report.

KEY:  Top Performer

 Needs Improvement

 Below Par

 Non-Pension Benefits are Minimal

This fact sheet stems from a 50-state analysis of states' retiree benefit obligations by Pew's Center on the States. The full report and 50 state fact sheets can be found at [www.pewcenteronthestates.org](http://www.pewcenteronthestates.org).

## OTHER BENEFITS

TOTAL BILL COMING DUE: **\$5.3 billion**

FUNDS SET ASIDE: **\$0**<sup>1</sup>

PORTION UNFUNDED: **\$5.3 billion**<sup>2</sup>

PERCENT FUNDED: **0 as of 2006**

HOW IS THE STATE DOING IN MANAGING THIS BILL? 

<sup>1</sup> As of 2006; in mid-2007, Alabama transferred \$200 million to the Teachers' Trust Fund and expected to transfer more before the year's end. It also planned to divert a portion of state contributions for employees' health insurance premiums into a trust to create a steady source of funding.

<sup>2</sup> As of 2006 for state employees; 410% of covered payroll, compared to a national median of 135%.

**REFORMS:** In 2007, the Alabama legislature set up irrevocable trusts to handle post-employment health benefits for public employees and schools, with the state's voters giving their stamp of approval to a constitutional amendment in June.



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